

MINUTES
BOARD OF TRUSTEES OF THE
PUBLIC EMPLOYEES' RETIREMENT FUND
143 West Market Street, Suite 500
Indianapolis, Indiana 46204
July 15, 2005

REGULAR SESSION

Board Members Present

Ken Cochran, Acting Chair
Chuck Schalliol
Kathy Ettensohn
Matt Murphy
Bob Welch

Board Members Absent

None

Others Present

Tony Armstrong, Office of Management & Budget
Doug Todd, McCready & Keene
Richard Lenar, McCready & Keene
Elaine Beaty, McCready & Keene
Scott Nickerson, Crowe Chizek

PERF STAFF Present

David Adams, Executive Director
Dave Huffman, Chief Technology Officer
Bruce Fink, Chief Investment Officer
Charles Johnson, Chief Financial Officer
Linda Villegas, Staff Attorney
Becki Cook, Executive Assistant to the Executive Director
Tom Parker, Director of the 1977 Police & Fire Fund
Jayelynn Willman, Executive Assistant to the Board

Meeting called to order by Linda Villegas at 12:10 pm. Ms. Villegas requested that a Board Chair and Vice Chair be elected.

I. APPOINTMENT OF BOARD CHAIR AND VICE CHAIR

MOTION duly made and carried to appoint Ken Cochran as Board Chair and Chuck Schalliol as Vice Chair.

Proposed by:
Seconded by:
Votes:

Kathy Ettensohn
Matt Murphy
4 in favor, 0 opposed, 0 abstentions

II. APPROVAL OF MINUTES

MOTION duly made and carried to approve the minutes from the June 17, 2005 Board of Trustees meeting.

Proposed by: Kathy Ettensohn
Seconded by: Matt Murphy
Votes: 5 in favor, 0 opposed, 0 abstentions

III. LINE OF DUTY DEATH BENEFIT DISCUSSION

Ms. Villegas followed up with the board regarding the approval process for the Special Death Benefit Fund payments. Currently the Board must approve all payments; however the Board can delegate that responsibility to the Executive Director.

Kathy Ettensohn mentioned that the people at PERF would have more knowledge in approving these payments and it would save time in getting the benefits paid.

MOTION duly made and carried to approve Resolution No. 05-06, to delegate the approval of Special Death Benefit Fund payments to the Executive Director with the understanding that the Executive Director will report the benefits paid to the Board at each board meeting.

Proposed by: Kathy Ettensohn
Seconded by: Ken Cochran
Votes: 5 in favor, 0 opposed, 0 abstentions

IV. EXECUTIVE DIRECTOR REPORT

David Adams presented to the board PERF's accomplishments since the last board meeting.

- Mr. Adams described the purpose and information within the PERF Scorecard. Key measurements are financial performance, customer services, system measures and fundamental agency change initiatives.
- Mr. Adams informed the Board that the State Board of Accounts (SBOA) FY05 has begun. Given concerns about how previous PERF audits were conducted and internal resource constraints, PERF has contracted with Crowe Chizek to direct and manage the efforts between PERF and SBOA. Scott Nickerson from Crowe reviewed with the board Crowe's role in the audit process. Crowe staff will be serving as the audit liaison

between PERF and the SBOA. Crowe is also reviewing prior SBOA findings, so that solutions to those issues can be discussed. Ms. Ettensohn asked Mr. Nickerson to discuss the status of the reconciliation process. Mr. Nickerson stated that cash is being reconciled monthly and Reserves are reconciled quarterly.

- Mr. Adams communicated that a Creditable Service Group was formed to address the major bottleneck with processing a retirement. PERF is also evaluating how information is collected from employers.
- Mr. Adams indicated that two contracts to provide supplemental employees have been signed. All supplemental staffing will undergo the same background checks as PERF employees. This is a new and significant step in the process.
- Mr. Adams indicated that our General Investment Consultant contract with Mercer has expired and a RFP has been issued.
- Mr. Adams indicated that a Final Benefit Audit and Analysis (FBAA) team was formed to ensure accuracy and completeness of benefit payments after the initial benefit payment was made. It was determined that some of the inaccuracies were a result of additional data being received after initial payment of benefits.
- Mr. Adams stated that Senate Bill 626 now includes Gaming Officers in the "Excise Police and Conservation Offices Fund". It will now be called the "Excise Police, Gaming Agents and Conservation Officers' Plan".
- Mr. Adams discussed the resolution of a previous system issue through Senate Bill 149. PERF members that had been inactive for more than 10 years should not have been receiving interest credit but were credited with interest due to a system issue. SB149 allows members prior to July 1, 2005 that fall into this category to be treated as properly credited.
- Mr. Adams informed the board that as of August 15th, we will no longer be sending out monthly remittances for direct deposit checks. This will save the fund in excess of \$200,000 per year.
- Mr. Adams introduced Dave Huffman, Chief Technology Officer, to discuss PERF's technology initiative. Mr. Huffman gave an overview of PERF's systems and discussed the data changes, reporting calculations, web-based initiatives and process re-engineering activities that are planned for FY 06.

V. BOARD FIDUCIARY LIABILITY OVERVIEW

Ms. Villegas gave an overview for the board members regarding their Fiduciary Duty.

Mr. Schalliol asked if there had been any cases in Indiana in which a trustee or board was held liable. Ms. Villegas could not recall any, but will do more research and report back to the board on her findings.

VI. BOARD COMMITTEES DISCUSSION

Ms. Villegas discussed the duties of the previous boards with respect to the Audit & Budget Committee, Investment Committee and the Benefits Committee. It was discussed that given the size of the board, all issues and any actions related to the fund would be discussed by the full board.

Ms. Ettensohn requested that a copy of the Audit & Budget charter be sent to the board for their review.

MOTION duly made and carried to approve Resolution No. 05-08 to dissolve the committees and transfer those responsibilities to the Board of Trustees.

Proposed by: Kathy Ettensohn
Seconded by: Matt Murphy
Votes: 5 in favor, 0 opposed, 0 abstentions

VII. IPSI Board Resolution

Ms. Villegas presented Resolution No. 05-07 to appoint David Adams to the IPSI Board, effect July 15, 2005 and run through January 2007.

MOTION duly made and carried to approve Resolution No. 05-07 to appoint David Adams to the IPSI Board.

Proposed by: Matt Murphy
Seconded by: Bob Welch
Votes: 5 in favor, 0 opposed, 0 abstentions

VIII. FINANCIAL UPDATE

Mr. Charles Johnson provided a financial review of FY05 as well as planned encumbrances against that budget. The encumbrances are due to consulting contracts that are ongoing.

IX. CONTRIBUTION RATES

Mr. Doug Todd from McCready & Keene discussed the Actuarial Valuations for the various funds.

Mr. Adams and Mr. Todd informed the board that the plan is to have future contribution rates determined by the end of the calendar year 2005.

Mr. Todd reviewed the Prosecuting Attorneys' Retirement Fund, Municipal Police Officers and Firefighters Fund, Legislators' Fund, Excise Police and Conservation Enforcement Officers' Fund and the Judges' Retirement Fund.

Mr. Todd indicated that McCready & Keene's calculations last year for the Prosecuting Attorneys' Retirement Fund were incorrect. This problem has been corrected.

MOTION duly made and carried to accept the Actuarial Valuation Reports from McCready & Keene.

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| <i>Proposed by:</i> | <i>Kathy Ettensohn</i> |
| <i>Seconded by:</i> | <i>Chuck Schalliol</i> |
| <i>Votes:</i> | <i>5 in favor, 0 opposed, 0 abstentions</i> |

X. SECOND QUARTER INVESTMENT UPDATE

Bruce Fink updated the board that the CRIF ended the quarter with assets valued at \$12.4 billion dollars. Total return for the fiscal year, net of investment fees, was 9.5% which was in excess of our actuarial assumed rate of return of 7.25%.

Mr. Fink indicated that the alternative investment portfolio has about 1% of the 5% allocated. Mr. Fink indicated that a director of alternative investments position was created and applicants will be sought.

Matt Murphy inquired regarding the use of consultants for alternative investments. Mr. Fink indicated that SIS is under contract on a retainer fee basis. It was suggested that SIS speak with the board at a future meeting and discuss their approach and value proposition. Mr. Fink to provide follow-up at next board meeting.

Ms. Ettensohn asked what level of investment authority was granted to the investment team. Mr. Fink stated that most investment related actions must go through board.

XI. INTERNATIONAL SECURITIES AND LENDING

Mr. Fink recommended that the Board eliminate the restriction that prevents the use of international securities in PERF's securities lending program.

- Mr. Fink explained the role of the securities lending program
- Mr. Fink indicated that the risks of International Securities Lending are similar to those of the Domestic Lending Program currently used by PERF.

Ms. Ettensohn asked if there was a cap on the percent of the portfolio that JP Morgan would lend. Mr. Fink said that the cap is set at 40% of the total portfolio.

MOTION duly made and carried to allow JP Morgan to begin lending international securities on PERF's behalf.

Proposed by: Kathy Ettensohn
Seconded by: Chuck Schalliol
Votes: 5 in favor, 0 opposed, 0 abstentions

XII. INVESTMENT ADMINISTRATIVE ISSUES

Mr. Fink outlined his three proposals in the memo located under Tab 9.

Mr. Murphy asked what the cost basis for the 333 shares of Computer Associates was. Mr. Fink did not have that information with him, but will provide it at the next board meeting.

Mr. Murphy asked what the gain/loss would be once we converted all of the currencies to US dollars. Mr. Fink stated that there would be a gain with no loss.

MOTION duly made and carried to accept all three of these recommendations.

Proposed by: Chuck Schalliol
Seconded by: Matt Murphy
Votes: 5 in favor, 0 opposed, 0 abstentions

XIII. REALLOCATION OF DOMESTIC AND INTERNATIONAL FUND INVESTMENTS

Mr. Fink reviewed with the board that the Large Cap Equity investments are benchmarked against the Russell 1000. Two of the investments within the portfolio are benchmarked against the S&P 500. Mr. Fink recommended changing these investments to align them with the Russell 1000 instead of the current S&P 500.

The Barclays Global Investors Index Fund that is currently aligned with the S&P 500.

Mr. Fink requested delegation to staff the authority to search for a Russell 1000 index fund provider, to select from those firms deemed qualified, to contract with the selected firm and to move the CRIF assets (approximately \$2.2 billion) from the current BGI S&P 500 Index account to the selected provider. Mr. Fink stated that he had received a quote from Barclays to align with the Russell 1000 as well as a phone quote from another manager and felt that by engaging a selection process could secure a more attractive fee structure for the fund. Chuck Schalliol asked about the cost difference and Mr. Fink stated that the Barclays quote would be a \$140,000 increase and the phone quote would be a \$34,000 increase. Mr. Fink stated to the board that this is a commodity product and that there were few investment firms large enough to handle this size capacity.

Mr. Fink also asked that the board to approve the utilization of an RFI process to procure such a qualified provider, which is an approved method of procurement as outlined in the investment procurement policy due to the limited nature of such providers. When asked about the procurement method, Mr. Fink replied that this approach was appropriate given the commodity nature of this product and the limited number of firms that could handle the size. Kathy Ettensohn asked that given the limited number of providers, should consideration be given to directly sourcing with a provider. It was suggested that the RFI should be published so that all firms would have the opportunity to respond.

MOTION duly made and carried to allow staff to search for a new Russell 1000 index fund provider using the RFI method for advertising in order to select a provider from those who respond, to enter into a contract with the firm selected by staff and to fund the new account with the CRIF assets currently in the S&P index account.

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| <i>Proposed by:</i> | <i>Chuck Schalliol</i> |
| <i>Seconded by:</i> | <i>Matt Murphy</i> |
| <i>Votes:</i> | <i>5 in favor, 0 opposed, 0 abstentions</i> |

The Barclays Global Investors Alpha Tilt Fund that is aligned with the S&P 500. Mr. Fink asked that the Board delegate authority to staff to move the asset invested in the Alpha Tilt Fund (managed by BGI) which is benchmarked to the S&P 500 to a new Alpha Tilt Fund (also to be managed by BGI) that will be benchmarked to the Russell 1000 index. Other than the index used, the Russell 1000 Alpha Tilt product managed by BGI is the same strategy used for the S&P 500 Alpha Tilt product.

Bob Welch questioned the reasoning for changing the Alpha Tilt fund since it has been performing so well for us. Mr. Fink explained that

BGI has a great Alpha Tilt program and we would simply be changing the benchmark.

MOTION duly made and carried to delegate to staff the authority to take those steps necessary to transfer the assets currently in the BGI Alpha Tilt Fund benchmarked against the S&P 500 to a new Alpha Tilt fund at BGI that is benchmarked against the Russell 1000.

Proposed by: Bob Welch
Seconded by: Chuck Schalliol
Votes: 5 in favor, 0 opposed, 0 abstentions

Mr. Fink discussed the BGI Active ACWI Ex US– this Index Fund currently has a 15% fixed weight to emerging markets. This weight was fixed at the time that BGI was hired for this mandate. Mr. Fink requested that the board allow staff to eliminate the fixed 15% target to emerging markets allowing the investment manager to adjust this exposure in order to more closely reflect its actual weight in the index.

MOTION duly made and carried to delegate to staff the authority to remove the 15% fixed target to emerging markets from the mandate for the BGI Active ACWI Ex US Index Fund.

Proposed by: Matt Murphy
Seconded by: Bob Welch
Votes: 5 in favor, 0 opposed, 0 abstentions

XIV. HOUSE INVESTMENTS

Mr. Fink provided details on the investment opportunity and advised the Board that both investment staff and SIS recommends that we participate in the House III-A.

Mr. Fink noted that PERF currently owns approximately 24% of the House III fund. Mr. Welch stated that it's not very typical that we would own 24% of any fund, but House has been successful to date and by participating in House III we'll maintain our 24% exposure. Mr. Fink indicated that the exposure would likely increase given the likelihood that all the current LPs will not participate in House III-A.

Mr. Fink also noted that not all of the \$11.4 million currently committed by PERF to House III would be invested in the House III-A. It is difficult to project the actual funding, but would anticipate only \$6 or \$7 million would be invested during the 36 month window that House III-A would be active.

MOTION made and duly carried to authorize staff to take steps necessary to invest in House III-A.

Proposed by: *Chuck Schalliol*
Seconded by: *Kathy Ettensohn*
Votes: *4 in favor, 0 opposed, 1 abstention (Matt Murphy)*

XV. DATE OF NEXT MEETING

September 16, 2005

XVI. ADJOURNMENT

Meeting adjourned at 3:50 pm.